

Message Text

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ACTION TRSE-00

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FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 9358
INFO AMEMBASSY BANGKOK
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AMEMBASSY JAKARTA

C O N F I D E N T I A L SECTION 01 OF 02 MANILA 13089

USADB

FOR NAC AGENCIES

EO 11652:GDS
TAGS: EAID, EFIN, ADB
SUBJECT: REVIEW OF ARRANGEMENTS FOR LENDING FROM THE
- ASIAN DEVELOPMENT FUND (1978-1982)

REF: MANILA 11903

BEGIN LIMITED OFFICIAL USE: SUMMARY: ADB MANAGEMENT HAS
SUBMITTED A PROPOSAL TO REVISE THE CRITERIA FOR ELIGIBILITY
OF COUNTRIES FOR ACCESS TO RESOURCES OF THE ASIAN DEVELOP-
MENT FUND (ADF) DURING THE ADF III PERIOD (1979-1982) AND
FOR LAST YEAR OF ADF II (I.E., THE CURRENT YEAR). USADB
BELIEVES THAT THE PROPOSAL MEETS U.S. BASIC OBJECTIVES AND
REQUESTS NAC APPROVAL. END SUMMARY.

1. ADB DOC. R67-78 ENTITLED QUOTE A REVIEW OF ARRANGEMENTS
FOR LENDING FROM THE ASIAN DEVELOPMENT FUND (1978-1982)
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UNQUOTE WAS POUCHED JULY 26 AND WILL BE CONSIDERED BY THE
BOARD OF DIRECTORS ON AUGUST 17.

2. IN VIEW OF THE AGREEMENT ON A REPLENISHMENT OF ADF
RESOURCES WHICH MORE OR LESS MEETS THE ESTIMATED REQUIRE-
MENT OF CONCESSIONAL RESOURCES FOR THE FOUR-YEAR PERIOD
1979-1982, AND AS THE AVAILABILITY OF CONCESSIONAL

RESOURCES DURING 1978 IS ALSO EXPECTED TO BE RELATIVELY BETTER THAN HAD BEEN ANTICIPATED EARLIER, ADB MANAGEMENT HAS TAKEN THE OPPORTUNITY TO REVIEW ARRANGEMENTS FOR LENDING FROM THE ADF IN A LONGER-TERM PERSPECTIVE THAN HAS BEEN POSSIBLE IN THE PAST.

3. AT THE TIME OF THE LAST REVIEW OF CRITERIA FOR LENDING FROM THE ADF IN SEPTEMBER 1977, THE BOARD OF DIRECTORS DECIDED THAT PER CAPITA GNP AND DEBT REPAYMENT CAPACITY SHOULD CONTINUE TO BE THE TWO BASIC INDICATORS OF ADF ELIGIBILITY. IN APPLYING THE PER CAPITA GNP INDICATOR, STATISTICS FOR 1975 WERE USED TOGETHER WITH AN ELIGIBILITY BENCHMARK OF DOLLARS 380, WITH SPECIAL CONSIDERATION GIVEN TO CERTAIN DMCS IN THE SOUTH PACIFIC BECAUSE OF THEIR PECULIAR ECONOMIC SITUATION. IN ALLOCATING ADF RESOURCES, DMCS WERE CLASSIFIED AS FULLY OR marginally ELIGIBLE, WITH THE STIPULATION THAT DMCS THAT ARE LEAST DEVELOPED OR MOST SERIOUSLY AFFECTED BY RECENT WORLD ECONOMIC DEVELOPMENTS SHOULD IN PRINCIPLE HAVE FIRST PRIORITY. WITH REGARD TO marginally ELIGIBLE DMCS (INDONESIA, PHILIPPINES AND THAILAND), THE BOARD CONSIDERED THAT RESOURCE CONSTRAINT MIGHT NOT ALLOW ADF LOANS TO BE MADE TO THEM DURING THE CURREN REPLENISHMENT PERIOD (1976-1978). HOWEVER, THE BOARD DECIDED THAT REVIEW BE UNDERTAKEN BY MID-1978 TO DETERMINE WHETHER FUND AVAILABILITY COULD PERMIT RELATIVELY MODEST AMOUNTS TO BE MADE AVAILABLE TO THOSE

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DMCS. THE BOARD ALSO DECIDED THAT THERE SHOULD BE AN ANNUAL REVIEW OF ADF LENDING CRITERIA.

4. THE 1977 CLASSIFICATION OF ELIGIBLE DMCS FOR ADF LOANS HAD A SEPARATE GROUPING FOR SOUTH PACIFIC DMCS. UNDER THE PROPOSED ARRANGEMENT, THE ONLY CHANGE IN ELIGIBILITY WOULD BE TO ADD THE REPUBLIC OF MALDIVES TO THE ELIGIBILITY LIST. HOWEVER, A RECLASSIFICATION IS CONTEMPLATED WHICH WOULD COMBINE THE ELIGIBLE SOUTH PACIFIC DMCS IN THE SAME GROUPS WITH THE OTHER ELIGIBLE DMCS. (PER CAPITA GNP OF DOLLARS 380 IN 1975 IS ROUGHLY EQUIVALENT TO DOLLARS 400 IN 1976. THE LATTER UPDATED FIGURE IS THE ELIGIBILITY BENCHMARK BEING APPLIED UNDER THE CURRENT REVIEW.)

5. THE PROPOSED RECLASSIFICATION OF THE BANK'S DMCS IS GENERALLY CONSISTENT WITH THAT OF THE 1977 REVIEW AND TAKE INTO ACCOUNT BOTH THE ECONOMIC SITUATIONS OF DMCS AND THE CURRENT AND PROJECTED AVAILABILITY OF ADF RESOURCES. IT CONSISTS OF THREE GROUPS:

- A. GROUP A: INCLUDES THOSE COUNTRIES THAT WOULD BE

FULLY ELIGIBLE FOR ADF FINANCING ON GROUNDS OF THEIR VERY LOW PER CAPITA GNP (DOLLARS 200 OR BELOW) AS WELL AS THEIR LIMITED DEBT-REPAYMENT CAPACITIES (AFGHANISTAN, BANGLADESH BURMA, CAMBODIA, LAOS, MALDIVES, NEPAL, PAKISTAN, SRI LANKA AND VIETNAM). IT ALSO INCLUDES FIVE SOUTH PACIFIC COUNTRIES, ON THE BASIS OF THEIR LIMITED ECONOMIC AND DEBT REPAYMENT CAPACITIES (COOK ISLANDS, GILBERT ISLANDS, SOLOMON ISLANDS, TONGA AND WESTERN SAMOA). GROUP A COUNTRIES WOULD CONTINUE TO BE GIVEN FIRST PRIORITY IN TH ALLOCATION OF ADF RESOURCES IN 1978 AND DURING THE ADF III PERIOD TO INSURE THAT THEIR REQUIREMENTS FOR CONCESSIONAL FINANCING ARE MET. LOAN BLENDING WOULD CONTINUE TO BE RESORTED TO FOR PAKISTAN.

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B. GROUP B: INCLUDES THOSE COUNTRIES WHOSE ECONOMIC PERFORMANCE AND CAPACITY, IN TERMS OF PER CAPITA GNP AND REPAYMENT CAPACITY, ARE AT INTERMEDIATE LEVELS WHICH JUSTIFY THE NEED FOR LIMITED FINANCING FROM ADF RESOURCES. THESE COUNTRIES, FOR WHICH MODEST AMOUNTS OF ADF LENDING WOULD ACCORDINGLY BE COMBINED WITH LENDING FROM ORDINARY CAPITAL RESOURCES, INCLUDE THE THREE DMCS DESIGNATED MARGINALLY ELIGIBLE IN THE 1977 REVIEW (INDONESIA, PHILIPPINES AND THAILAND), THE PER CAPITA GNP OF WHICH RANGE BETWEEN \$240 - \$290 (IN 1976 TERMS) AND THE ONE

COUNTRY DESIGNATED AS A BLEND DMC IN THE 1977 REVIEW (PAPUA NEW GUINEA) THE PER CAPITA GNP OF WHICH IS \$490 (IN 1976 TERMS). ITS INCLUSION IN GROUP B IS BASED ON ITS DEPENDENCE ON THE EXPORT OF A FEW PRIMARY COMMODITIES AND ON THE FACT THAT THE ECONOMY'S EXTERNAL SECTOR IS MADE UNIQUE BY A RELATIVELY LARGE OUTFLOW OF INVESTMENT INCOME AND DEPENDENCE ON OFFICIAL TRANSFER RECEIPTS TO CONFIDENTIAL

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MAINTAIN ITS CURRENTLY FAVORABLE BALANCE OF PAYMENTS POSITION. PAPUA NEW GUINEA MAY CONTINUE TO RECEIVE FROM THE BANK A BLEND OF ORDINARY AND ADF LOANS.

- C. GROUP C: INCLUDES THOSE MORE ADVANCED DMCS THAT WOULD BE CLASSIFIED AS INELIGIBLE FOR ADF FINANCING ON THE GROUNDS THAT THEIR ECONOMIC PERFORMANCE AND PROSPECTS ARE SUFFICIENT TO PERMIT FULL FINANCING FROM THE BANK'S ORDINARY CAPITAL RESOURCES.

6. IT IS CONSIDERED APPROPRIATE TO MAINTAIN THE PROPOSED SCOPE OF ELIGIBILITY AND CLASSIFICATION OF DMCS THROUGHOUT THE 1979-1982 SECOND REPLENISHMENT (ADF III) PERIOD, AS WELL AS IN 1978 BECAUSE (A) PAST GROWTH TRENDS OF REAL PER CAPITA GNP SHOW A GENERALLY CLEAR DISTINCTION BETWEEN THE GROWTH RATES ACHIEVED BY THE THREE ABOVE CATEGORIES OF DMCS, AND (B) THE MAINTENANCE OF THE PRESENT SCOPE OF ELIGIBILITY ALSO SEEMS APPROPRIATE IN THE LIGHT OF THE REVIEW OF THE PROSPECTIVE ADF RESOURCE POSITION. HOWEVER, AN INTERIM REVIEW COULD BE UNDERTAKEN IF SUBSTANTIAL CHANGES WERE TO OCCUR DURING THE PERIOD IN THE ECONOMIC SITUATION OF A PARTICULAR DMC OR IF SUBSTANTIAL CHANGES REQUIRING A MODIFICATION OF THE PROPOSED GUIDELINES WERE TO OCCUR IN THE AVAILABILITY OF ADF RESOURCES. OTHERWISE, THE NEXT GENERAL REVIEW WOULD TAKE PLACE NEAR TO THE COMMENCEMENT OF ARRANGEMENTS FOR THE THIRD ADF REPLENISHMENT (ADF IV). END LIMITED OFFICIAL USE.

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7. USADB COMMENT: MANAGEMENT'S PAPER APPEARS TO MEET ALL THE PRINCIPAL U.S. OBJECTIVES. THE EXPANSION OF ADF LENDING TO THE ASEAN NATIONS OF THE PHILIPPINES, THAILAND, INDONESIA HAS BEEN A SIGNIFICANT USADB OBJECTIVE FOR THE CONFIDENTIAL

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PAST YEAR. IN SEPTEMBER OF LAST YEAR, WE PRESSED MANAGEMENT TO REVIEW THE CRITERIA BY MID-1978, MAKING

CLEAR THAT IT WAS OUR STRONG DESIRE THAT FUNDS BE MADE AVAILABLE FROM ADF II RESOURCES FOR INDONESIA, THAILAND AND THE PHILIPPINES. THE USED RECEIVED INFORMAL ASSURANCES FROM THE PRESIDENT THAT HE WOULD MAKE SUCH A RECOMMENDATION SUBJECT TO THE SATISFACTORY REPLENISHMENT OF THE ADF. WE ALSO PRESSED MANAGEMENT TO PROVIDE FUNDS FOR THE THREE COUNTRIES IN 1978, EVEN BEFORE THE INTRODUCTION OF THE 1979-1982 ADF III LENDING PROGRAM. THE PRESIDENT ALSO PRIVATELY AGREED TO LOOK AT THIS REQUEST SYMPATHETICALLY, AND HAS INCLUDED SUCH A RECOMMENDATION IN THE CURRENT PAPER. FINALLY, RECENTLY (SEE REFTTEL) WE ASKED THE PRESIDENT TO EXPAND THE LEVEL OF ADF LENDING CONTEMPLATED TO INDONESIA, BY RECOMMENDING THAT IT BE PLACED IN A SIMILAR CATEGORY AS THAT AS PAKISTAN. HE WAS RELUCTANT FORMALLY TO RECOMMEND THIS DUE TO THE FEAR THAT IT WOULD BRING ABOUT A DIVISIVE DEBATE IN THE BOARD IN THAT THE POORER COUNTRIES AND THEIR SUPPORTERS WOULD RESENT THE INTRODUCTION OF INDONESIA INTO THE QUEUE. HE DID AGREE, HOWEVER, TO ACCOMPLISH MUCH THE SAME OBJECTIVE OBLIQUELY, AND HAS DONE SO BY PLACING INDONESIA, THAILAND, THE PHILIPPINES, AND PAPUA NEW GUINEA IN A SEPARATE CATEGORY; BY STATING THAT THIS LATTER GROUP OF COUNTRIES WOULD RECEIVE "ADF RESOURCES: NOT EXCEEDING 15 PERCENT OF TOTAL ADF LENDING DURING THE ADF III PERIOD AND AROUND 15 PERCENT IN 1978," AND BY INCLUDING IN THE RECOMMENDATION THAT "THE ECONOMIC SITUATION OF EACH GROUP B DMC BE TAKEN INTO ACCDUNT IN DETERMINING THE SPECIFIC AMOUNTS OF ADF AND ORDINARY CAPITAL RESOURCES TO BE PROVIDED TO EACH COUNTRY." THE LAST PROVISION WILL PERMIT INDONESIA TO RECEIVE AS MUCH AS HALF OF THE TOTAL FLOW OF ADF RESOURCES FLOWING TO THE GROUP B COUNTRIES (WHICH TOTAL MIGHT BE AS MUCH AS \$375 MILLION DURING THE 1978-1982 PERIOD). NAC APPROVAL OF THE PAPER IS THEREFORE REQUESTED. END CONFIDENTIAL. EDMOND
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